share for an aggregate purchase price of up to \$200 0 million through a rights offering, which we refer as the Rights Offering In addition, pursuant to the stipulation relating to the settlement of a claim made against XO Parent purportedly on behalf of its stockholders, which we refer to as the Stockholder Stipulation, holders of shares of pre-bankruptcy class A common stock of XO Parent will receive additional nontransferable rights to the extent that the Rights otherwise allocable to such holders in the Rights Offering are exercisable for less than 3,333,333 shares of New Common Stock Accordingly, not less than 40,000,000 and not more than 43,333,333 rights at \$5 00 per share will be offered in the Rights Offering

Pursuant to the order confirming our Plan of Reorganization, the Rights Offering will not take place until the date a registration statement covering the offer and sale of such rights and shares to be offered thereunder is filed with the SEC and such registration statement becomes effective We have not yet filed a registration statement with respect to the rights and the Rights Offering

For more information concerning the terms of the securities and distributions under our Plan of Reorganization, see Item 1, "Business – Our Chapter 11 Reorganization "

Distributions to and Interests Held by Entities Controlled by Mr Carl C Icahn

After the initial distribution of New Common Stock pursuant to the Plan of Reorganization, Cardiff Holding LLC, a Delaware limited liability company controlled by Mr Carl C Icahn, holds more than 80% of the outstanding shares Of the warrants to be distributed under the Plan of Reorganization to holders of the pre-bankruptcy senior unsecured notes, we estimate Cardiff will receive Series A Warrants to purchase approximately 3 0 million shares of New Common Stock, Series B Warrants to purchase approximately 2 2 million shares of New Common Stock, and Series C Warrants to purchase approximately 2 2 million shares of New Common Stock High River assigned its 85% interest in the \$500 0 million in loans outstanding under the New Credit Agreement to Chelonian Corp , an entity which is controlled by Mr Icahn, which subsequently assigned those loans to Arnos Corp , an entity which is also controlled by Mr Icahn

Accounting Impact of Implementing the Plan of Reorganization

Due to XO Parent's Chapter 11 filing, our financial statements have been prepared in accordance with AICPA Statement of Position 90-7, "Financial Reporting by Entities in Reorganization under the Bankruptcy Code," hereinafter referred to as SOP 90-7 Pursuant to SOP 90-7, the financial statements for the periods presented distinguish transactions and events that are directly associated with our reorganization from our ongoing operations We have determined that we are required to implement the "fresh start" accounting provisions of SOP 90-7 to our financial statements The fresh start accounting provisions require that we establish a "fair value" basis for the carrying value of the assets and liabilities for reorganized XO As disclosed on the balance sheet included in the accompanying financial statements set forth in Item 8 below, and in note 3 to such financial statements, we currently estimate that the value of our long-lived assets, including property and equipment, fixed wireless licenses, other intangibles and other non-current assets, after implementing SOP 90-7 will decrease to \$661 0 million from \$3 8 billion Accordingly, depreciation and amortization expense will decline significantly in future periods

In addition, as described above and in Item 1, "Business – Our Chapter 11 Reorganization," implementation of the Plan of Reorganization resulted in the cancellation of over \$6 9 billion in pre-bankruptcy debt and preferred stock obligations leaving outstanding only the \$500 0 million in debt obligations under the New Credit Agreement, and \$80 1 million of other long term liabilities including obligations under various capital leases As a result, our interest expense and preferred stock dividend obligations in future periods will decline significantly in comparison to the interest expense and preferred stock dividend obligations incurred in periods prior to the consummation of the Plan of Reorganization As a result of the gain resulting from the cancellation of our pre-bankruptcy debt obligations, a substantial portion of our capital and net operating loss carryforwards, which totaled approximately \$4 5 billion at December 31, 2002, is expected to be eliminated

Under SOP 90-7, the implementation of fresh start reporting is triggered in part by the emergence of XO Parent from its Chapter 11 proceedings. Although the effective date of the Plan of Reorganization was January 16, 2003, we plan to account for the consummation of the Plan of Reorganization as if it had occurred on January 1, 2003 and implement fresh start reporting as of that date

Operational Impacts of the Restructuring and Current Business Trends

XO Parent's Chapter 11 proceedings did not disrupt our ability to operate our networks or provide our services to new and existing customers Nevertheless in 2002, due to the financial problems of the telecommunications industry in general, and emerging communications providers such as us in particular, we experienced a revenue decline during 2002, from $333 4 million in the first quarter of 2002 to $299 4 million in the fourth quarter of 2002 This decline was largely due to customer disconnects exceeding historic levels and a reduction in our sales productivity Customer disconnects increased in part because a number of large customers sought bankruptcy protection, primarily carrier customers that procured our data services We also experienced lower demand from a number of large telecommunications customers due to reductions in those customers' capacity needs Our sales productivity declined in 2002 in part due to a reduction in the number of direct sales representatives In addition, we believe that the adverse public perception that accompanied XO Parent's Chapter 11 proceedings made it difficult for XO to sell services to potential customers or increase sales to existing customers

To increase sales activity in 2003, we are in the process of hiring additional direct sales personnel Programs launched in 2002 to decrease customer disconnects will continue New order entry and order processing systems, which will improve speed and efficiency of installing new customers, are partially installed and we expect to complete installation in 2003 Despite these changes, if (i) customer disconnects continue at current or elevated levels, (ii) sales productivity does not improve, either because our sales programs do not attract new customers or the telecommunications environment worsens, (iii) our systems deployment is not completed this year, or (iv) a combination of all three factors occur, revenue in 2003 could be significantly lower than 2002 results See also Item 1, "Business – Risk Factors "

Other 2002 Transactions and Developments

Inter-city Network Agreement

On August 8, 2002, we entered into a Master Agreement with Level 3 Communications, Inc , which amends various agreements related to XO's acquisition of fiber networks in the United States from Level 3 and the recurring maintenance charges relating to those networks Beginning on January 1, 2003 and continuing over the remaining term of the initial agreement, Level 3 will reduce the operating and maintenance fees as well as fiber relocation it charges us from approximately $17 0 million annually to a fixed rate of $5 0 million annually In exchange for this reduction and certain other concessions, effective as of February 11, 2003, the closing date for the transaction, we surrendered our indefeasible right to use an empty conduit and our indefeasible right to use six of the 24 fibers previously acquired from Level 3 Because we had committed to this plan of disposal and believed at the time that we entered into the Master Agreement that consummation of the contemplated transaction was probable, we recorded a $477 3 million non-cash write-down of these assets during the third quarter of 2002 Pursuant to applicable accounting principles, the write-down is based on the book value of the surrendered facilities and does not reflect the future benefits to be received by us under the Master Agreement

Operational Restructuring

In the second quarter of 2002, we restructured our operations by reducing our workforce by approximately 350 employees, the majority of whom were employed in network operations, sales and marketing and information technology, and recorded a $2 9 million restructuring charge related to involuntary termination severance liabilities

Prepaid Calling Card Tax Matter

On July 26, 2002, we were advised by the staff of the SEC that it was conducting an informal inquiry primarily relating to our obligations with respect to, and our accrual of liabilities for, specified federal excise and state sales tax and similar tax obligations arising in connection with prepaid calling card services and relating to certain other matters Sales from prepaid calling card services that are potentially subject to these taxes accounted for approximately $56 million of our total revenues from 1999, when we began providing these services, through June 30, 2002 We believe that our accounting for these potential obligations is appropriate and that our accrual of liabilities relating to these obligations is adequate

Comparison of Financial Results

Because our Plan of Reorganization was not consummated until January 16, 2003, the results of our operations for 2002 do not include the effects of the resulting cancellations of indebtedness and preferred stock or the reduction in the carrying value of our long-lived assets from the implementation of fresh start accounting The cancellation of indebtedness and preferred stock will result in a significant gain that will be partially offset by the loss on the reduction in the carrying value of our long-lived assets from the application of fresh start accounting The net gain and the adjustment to our financial position will be reflected in our financial statements for the first quarter of 2003 The extinguishment of indebtedness and preferred stock will result in interest expense and preferred stock dividends being lower, and the reduction in the carrying value of our long-lived assets will result in depreciation and amortization expense being lower in periods subsequent to the effective date of the Plan of Reorganization when compared with historical accounting periods

Year Ended December 31, 2002 Compared to Year Ended December 31, 2001

Revenue Total revenue in 2002 of $1,259 9 million was consistent with total revenue in 2001 of $1,258 6 million The weakened economy and the perceived uncertainties in the market regarding XO Parent's recently concluded Chapter 11 proceedings had a negative impact on our ability to generate new sources of revenue Consequently, we were not able to maintain the level of growth that we had historically achieved We experienced a high level of customer disconnects in the current year due to reduced demand from other telecommunications companies and increased customer bankruptcies in the telecommunications and dot-com industries Total revenue declined from $343 0 million in the fourth quarter of 2001 to $299 4 million in the fourth quarter of 2002 We believe that total revenue in the near term will decline slightly from fourth quarter 2002 levels, with modest growth occurring in the second half of 2003 assuming no significant further deterioration of the industry or general economic conditions Accordingly, we expect that 2003 total revenue will be slightly lower than 2002 total revenue

Revenue was earned from providing the following services (dollars in thousands)

	Year Ended December 31,				
	2002	% of 2002 Revenue	2001	% of 2001 Revenue	% Change
Voice services	$ 658,453	52 3%	$ 606,848	48 2%	8 5%
Data services	472,247	37 5%	596,664	47 5%	(20 9%)
Integrated voice and data services	128,048	10 2%	52,018	4 1%	146 2%
Other services	1,105	0 0%	3,037	0 2%	(63 6%)
Total revenue	$ 1,259,853	100.0%	$1,258,567	100.0%	0 1%

Voice services revenue includes revenue from bundled local and long distance voice services, prepaid calling card processing, and other voice communications based services, interactive voice response services and stand-alone long distance services Voice services revenue in 2002 increased to $658 5 million from $606 8 million in 2001 The increase was primarily due to more sales to larger business customers, including the impact of the rollout of our carrier long distance service Voice revenue declined from $166 5 million in the fourth quarter of 2001 to $157 3 million in the fourth quarter of 2002 We believe our voice services revenue in the near term will decline slightly from fourth quarter 2002 levels with modest growth occurring in the second half of 2003 We expect 2003 voice services revenues to be slightly lower than 2002 voice services revenues

Data services revenue includes revenue from Internet access, network access and web applications hosting services Data services revenue in 2002 decreased to $472 2 million from $596 7 million in 2001 This decline was attributable primarily to customer bankruptcies affecting some large network access customers, increased levels of customer disconnects, and a lower demand from large customers due to reductions in those customers' data and fiber capacity needs The sale of our European operations in February 2002 also contributed to this decline Data service revenue declined from $152 8 million in the fourth quarter of 2001 to $108 0 million in the fourth quarter of 2002 We expect our data services revenue in the near term to remain relatively constant or decline slightly from fourth quarter results and expect slight growth in the second half of 2003 We expect 2003 data revenue to be less than 2002 results

Integrated voice and data services revenue is generated largely from our XOptions service offerings, a flat-rate bundled package offering a combination of voice and data services Integrated voice and data services revenue in 2002 increased to $128 0 million from $52 0 million in 2001 The increase is primarily attributed to an increase in the number of customers to whom we provide XOptions service We expect that the revenue from integrated voice and data services will be flat in the near term, and experience modest growth in the second half of 2003, such that 2003 revenue from integrated voice and data services will grow modestly when compared to 2002 results

Costs and expenses The table below provides costs and expenses by classification and as a percentage of revenue (dollars in thousands)

Year Ended December 31,				
2002	% of 2002 Revenue	2001	% of 2001 Revenue	% Change

Costs and expenses					
Cost of service	$ 522,924	41 5%	$ 527,698	41 9%	(0 9%)
Selling, operating and general	736,925	58 5%	971,714	77 2%	(24 2%)
Stock-based compensation	28,928	2 3%	37,173	3 0%	(22 2%)
Depreciation and amortization	699 806	55 5%	1,162,671	92 4%	(39 8%)
Restructuring and asset write-downs	480,168	38 1%	509,202	40 5%	(5 7%)
Total	$ 2,468,751		$ 3,208,458		(23 1%)

Cost of service Cost of service includes expenses directly associated with providing telecommunications services to our customers Cost of service includes, among other items, the cost of connecting customers to our networks via leased facilities, the costs of leasing components of our network facilities and costs paid to third party providers for interconnect access and transport services Cost of service in 2002 was $522 9 million compared to $527 7 million in 2001 The 2002 decline was due primarily to cost optimization programs to reduce expenses by transferring traffic from leased facilities onto facilities owned or controlled by us These cost reductions were offset to some extent by increased costs of service that were attributable to the increase in voice and integrated services revenue as a percentage of our total revenue, which generally carry lower margins when compared to data services because voice and integrated services are more likely to utilize leased versus owned network facilities to terminate calls We expect that in the near term cost of service as a percentage of revenue will remain relatively constant with slight fluctuations corresponding to trends in revenue, product mix and the impact of customer bankruptcies Certain cost of service rates are subject to state and federal regulatory control Should an adverse decision be made by these regulatory commissions that increase these rates, our costs of service as a percentage of revenue could increase

Selling, operating and general. Selling, operating and general expense includes expenses related to sales and marketing, internal network operations and engineering, information systems, general corporate office functions and expenses relating to collection risks Selling, operating and general expense in 2002 was $736 9 million compared to $971 7 million in 2001 Selling, operating and general expense decreased both in absolute dollars and as a percentage of revenue in 2002 when compared to 2001 due to efficiencies resulting from the centralization of and process improvements in many functions and cost reduction and restructuring initiatives that included significant headcount reductions and savings from the planned exit of certain leased facilities, as well as the February 2002 sale of our European operations We expect 2003 selling, operating and general expense to be less than the 2002 results in both absolute dollars and as a percentage of total revenue due to benefits from cost cutting initiatives and implementation of fresh start accounting

Stock-based compensation Stock-based compensation expense represents non-cash charges recorded in connection with the grant of compensatory stock options and restricted stock grants to employees whose compensation is included in selling, operating and general expense Compensation expense is recognized over the vesting periods of such grants based on the excess of the fair value of the common stock at the date of grant (determined by reference to the market price on that date) over the exercise price Stock-based compensation in 2002 decreased to $28 9 million from $37 2 million in 2001 primarily due to certain grants becoming fully amortized In 2003, as part of the implementation of fresh start accounting, we will eliminate the carrying value of deferred compensation and, therefore, there will be no related stock-based compensation expense in future periods with respect to pre-petition compensatory stock options and restricted stock grants The reorganized company will recognize stock based compensation expense only with respect to any new grants of compensatory stock options and restricted stock

Depreciation and amortization We have constructed an integrated facilities-based network in the United States Primarily in late 2001 and early 2002, we expanded our services in existing markets, placed more assets into service, and increased our obsolescence expense, all of which caused depreciation expense to increase to $598 5 million in 2002 from $447 0 million in 2001 In 2003, in conjunction with our implementation of fresh start accounting, we will adjust the carrying value of our property and equipment to its estimated fair value of $502 2 million from a net carrying value of $2,780 6 million at December 31, 2002 Accordingly, depreciation expense will decrease significantly during 2003 and in future periods when compared to depreciation expense for periods prior to the effective date of the Plan of Reorganization

Amortization expense includes the amortization of fixed wireless licenses and other intangibles assets with definite lives and, for 2001, also includes the amortization of goodwill Amortization expense decreased to $101 3 million in 2002 from $715 7 million in 2001 The significant decrease is primarily due to our implementation of SFAS No 142 and the resulting write-off of all our goodwill as of January 1, 2002 In conjunction with our implementation of fresh start accounting in 2003, we will reduce the $911 8 million December 31, 2002 carrying value of our fixed wireless licenses to their estimated fair value of approximately $60 0 million, and increase the $72 8 million December 31, 2002 net carrying value of other intangible assets to their estimated fair value of approximately $76 0 million Accordingly, amortization expense will decrease in 2003 and in future periods when compared to amortization expense for periods prior to the effective date of the Plan of Reorganization

As of December 31, 2002, our balance sheet reflected approximately $731 0 million of long-lived assets, including construction-in-progress and certain fixed wireless licenses that had not been placed into service and, accordingly, were not being depreciated or amortized As discussed above, these long-lived assets will be written down to their estimated fair values when we apply fresh start accounting during the first quarter of 2003

Restructuring and asset write-downs Restructuring and asset write-downs were $480 2 million in 2002 and $509 2 million in 2001 During 2001, restructuring charges primarily related to the implementation of our plan to restructure certain of our business operations The restructuring plan included divesting certain assets and businesses, and reducing our discretionary spending, capital expenditures and workforce, based on our assessment of current and future market conditions The 2001 restructuring charges include a $366 8 million write-down for the excess of carrying value of assets to be sold or abandoned, including our European business unit, and a $134 4 million restructuring charge relating to the consolidation and exiting of domestic facility leases, which was determined based on the future minimum rent commitments for the buildings that management intends to exit less estimated sublease rental streams The 2001 restructuring charges also included an $8 0 million restructuring charge related to involuntary termination severance costs with respect to 700 persons whose employment was terminated in connection with a workforce reduction, the majority of whom were terminated by December 31, 2001

During 2002, we continued to restructure our operations and reduced our workforce by approximately 350 additional employees, the majority of whom were employed in network operations, sales and marketing and information technology, and recorded a $2 9 million restructuring charge related to the involuntary termination severance costs In addition, we recorded a $477 3 million non-cash asset write-down during the third quarter of 2002 as a result of returning inter-city assets to Level 3 in exchange for reduced future maintenance expenses beginning in 2003

Interest income Interest income in 2002 decreased to $16 5 million from $77 9 million in 2001 The decrease in interest income corresponds to the decrease in our average cash and marketable securities balances and a reduction in interest rates The amount of interest income attributable to increased cash balances during the bankruptcy proceedings was not material

Interest expense, net Interest expense, net in 2002 decreased to $226 5 million from $465 4 million in 2001, as we ceased accruing interest and penalties on our pre-petition senior unsecured, subordinated notes and Pre-Petition Facility as of the petition date, in accordance with SOP 90-7 The contractual interest amounts of $501 1 million reflected on the consolidated statement of operations represents the interest expense that would have been accrued under the relevant financing agreements had we not ceased accruing interest as described above We expect interest expense to decrease in future periods, given the significant reduction in our debt obligations as a result of our Plan of Reorganization

Other income (loss), net. Other income (loss), net was a loss of $0 2 million in 2002 and a loss of $93 8 million in 2001 The 2001 balance includes an $89 0 million write-down for an other than temporary decline of the value of certain equity method investments

Reorganization. Reorganization expenses include adjustments to our financial position and professional service fees that are a direct result of our June 17, 2002 Chapter 11 filing and our application of the accounting required by SOP 90-7 Reorganization expense in 2002 was $91 1 million and included the (i) non-cash charges relating to the write off of issuance costs, discounts and purchase accounting adjustments to adjust the historical carrying amounts of our debt to the allowed claim amount by the Bankruptcy Court, (ii) professional fees associated with our Plan of Reorganization, (iii) the penalties from the rejection of contracts, (iv) adjustments to unpaid pre-petition accounts payable and accrued expenses to the claim amounts allowed by the bankruptcy court, and (v) the net gain resulting from payments received by XO Parent in connection with the settlement and termination of the proposed investment transaction that was the basis for the first restructuring alternative contemplated by the Plan of Reorganization, less amounts paid to settle certain stockholder claims

Net loss before extraordinary gain and cumulative effect of accounting change. Net loss before extraordinary gain and cumulative effect of accounting change during 2002 improved to $1,510 2 million from a net loss of $2,431 1 million in 2001 due to the foregoing factors

Extraordinary gain on repurchases of debt, net. During 2001, we recorded an extraordinary gain totaling $345 0 million related to our repurchase of $557 1 million of senior notes at a substantial discount from their respective face values

Cumulative effect of accounting change. We performed the newly required transitional impairment tests of goodwill as required by SFAS No 142 as of January 1, 2002 Based on these tests, we recorded a $1,876 6 million impairment charge to write-off all of our goodwill as a cumulative effect of accounting change during the first quarter of 2002

Net loss Net loss in 2002 increased to $3,386 8 million from a net loss of $2,086 1 million in 2001 due to the foregoing factors

Recognition of preferred stock modification fee, net- reorganization item In order to adjust the historical carrying amount of our preferred stock to the amount allowed by the Bankruptcy Court, we recognized the unamortized balance of a deferred modification fee with respect to our preferred stock as of the petition date and wrote off certain unamortized issuance costs and recognized certain purchase accounting adjustments related to the preferred stock which netted a $78 7 million gain during 2002

Gain on repurchases of preferred stock, net. In 2001, we recorded a net gain totaling $376 9 million related to our repurchase of $472 6 million in liquidation preference of our preferred stock at a substantial discount from the respective carrying amounts

Preferred stock dividends and accretion of preferred stock redemption obligation, net. As our preferred stock was deemed subject to compromise under SOP 90-7, we ceased accruing dividends and accreting the redemption obligation on all of our outstanding preferred stock as of our petition date As a result, we recorded $42 2 million of preferred stock dividends during 2002 as compared to $129 7 million in such dividends in 2001 The contractual dividend amount of $98 8 million reflected on the accompanying condensed consolidated statement of operations represents the dividends that would have been accrued under the terms of our preferred stock had we not ceased accruing such dividends as described above

Net loss applicable to common shares Net loss applicable to common shares in 2002 increased to $3,350 4 million from $1,838 9 million in 2001 due to the foregoing factors

Year Ended December 31, 2001 Compared to Year Ended December 31, 2000

Revenue Total revenue in 2001 increased to $1,258 6 million from $723 8 million in 2000 The increase was primarily due to the increase in the number of customers and growth in network traffic and average monthly revenue per customer The growth in our customer base was largely due to our penetration of existing markets, expansion into new markets in 2001 and 2000 and our June 2000 Concentric acquisition The growth in network traffic and average monthly revenue per customer was primarily due to the expansion of our service offerings and our emphasis on selling to larger business customers

Revenue was earned from providing the following services (dollars in thousands)

	Year Ended December 31,				
	2001	% of 2001 Revenue	2000	% of 2000 Revenue	% Change
Voice services	$ 606,848	48 2%	$ 386,796	53 4%	56 9%
Data services	596,664	47 5%	331,892	45 9%	79 8%
Integrated voice and data services	52,018	4 1%	2,693	0 4%	NM
Other services	3,037	0 2%	2,445	0 3%	24 2%
Total revenue	$1,258,567	100.0%	$ 723,826	100.0%	73 9%

*NM – Not Meaningful

Voice services revenue includes revenue from bundled local and long distance voice services, prepaid calling card processing, and other voice communications based services, including shared tenant services, interactive voice response services and stand-alone long distance services Voice services revenue in 2001 increased to $606 8 million from $386 8 million in 2000 The increase was primarily due to the growth in the number of our voice services customers and our targeting of larger business customers

Data services revenue includes revenue from Internet access, network access and applications hosting services Data services revenue in 2001 increased to $596 7 million from $331 9 million in 2000 A primary contributor to this growth was our migration from voice-centric service offerings to a more balanced portfolio of voice and data services, facilitated in large part by our June 2000 acquisition of Concentric and the integration of its data products with our pre-existing services and by our development of new and enhanced data services Data services revenue increased slightly as a percentage of total revenue for 2001 compared to 2000 due to a full year impact of the integration of data products and the new and enhanced data services we have developed However, the majority of the impact realized from fully integrating these data products was partially offset by new customers choosing our integrated voice and data services and customer bankruptcies

Integrated voice and data services revenue is generated largely from our XOptions product, a flat-rate bundled package offering a combination of voice and data services Integrated voice and data services revenue in 2001 increased to $52 0 million from $2 7 million in 2000 The increase is primarily attributable to the addition of XOptions to our product portfolio beginning in the fourth quarter of 2000

Costs and expenses The table below provides costs and expenses by classification and as a percentage of revenue (dollars in thousands)

	Year Ended December 31,				
	2001	**% of 2001 Revenue**	**2000**	**% of 2000 Revenue**	**% Change**
Costs and expenses					
Cost of service	$ 527,698	41 9%	$ 302,666	41 8%	74 3%
Selling, operating and general	971,714	77 2%	730,604	100 9%	33 0%
Stock-based compensation	37,173	3 0%	48,328	6 7%	(23 1%)
Depreciation and amortization	1,162,671	92 4%	617,714	85 3%	88 2%
Restructuring charge	509,202	40 5%	—	—	NM
In-process research and development	—	—	36,166	5 0%	NM
Total	$3,208,458		$1,735,478		84 9%

*NM – Not Meaningful

Cost of service Cost of service includes expenses directly associated with providing telecommunications services to our customers Cost of service includes, among other items, the cost of connecting customers to our networks via leased facilities, the costs of leasing components of our network facilities and costs paid to third party providers for interconnect access and transport services Cost of service in 2001 was $527 7 million compared to $302 7 million in 2000 Cost of service for 2001 was consistent as a percentage of revenue as compared to 2000, but increased in absolute dollars on a period-over-period comparison due to the corresponding increase in revenue

Selling, operating and general Selling, operating and general expense includes expenses related to sales and marketing, internal network operations and engineering, information systems, and general corporate office functions Selling, operating and general expense in 2001 was $971 7 million compared to $730 6 million in 2000 The majority of the period-over-period increase was due to the full year impact of increased sales, network operations and customer support headcount associated with the expansion of our business and the June 2000 Concentric acquisition Selling, operating and general expense decreased as a percentage of revenue in 2001 compared to the same period in 2000 due to continued efficiencies generated by the centralization of many functions

Stock-based compensation Stock-based compensation in 2001 decreased to $37 2 million from $48 3 million in 2000 primarily due to the vesting of a fixed number of shares of restricted stock issued in 2000 in conjunction with the Concentric acquisition

Depreciation and amortization Our net property and equipment increased to $3,742 6 million as of December 31, 2001 versus $2,794 1 million as of December 31, 2000 As we launched and expanded services in new and existing markets, more assets were placed into service, which caused depreciation expense to increase to $447 0 million in 2001 from $223 8 million in 2000 Amortization expense increased to $715 7 million in 2001 from $393 9 million in 2000 Of the total 2001 amortization expense, 83 1% relates to goodwill amortization The significant increase is primarily due to the amortization of additional goodwill and intangible assets recorded as a result of the June 2000 Concentric acquisition, which are being amortized over a period of up to five years In conjunction with the implementation of SFAS No 142, we wrote off all of the carrying value of our goodwill in the first quarter of 2002

Restructuring charge During 2001, we recorded $509 2 million of estimated restructuring charges primarily related to implementation of our plan to restructure certain of our business operations The restructuring plan includes divesting certain assets and businesses, and reducing our discretionary spending, capital expenditures and workforce, based on our assessment of current and future market conditions The restructuring charges include a $366 8 million write-down for the excess of carrying value of assets that were to be sold or abandoned, including our European business unit The consolidation and exiting of domestic facility leases accounted for $134 4 million of the restructuring charges and was determined based on the future minimum rent commitments for the buildings management intended to exit less estimated sublease rental streams We also reduced our workforce by approximately 700 employees and recorded an $8 0 million restructuring charge related to involuntary termination severance The employment of the majority of the notified employees was terminated by December 31, 2001

In-process research and development As a result of the Concentric merger in June 2000, we incurred a $36 2 million one-time charge in the second quarter of 2000 resulting from an allocation of the purchase price to in-process research and development The allocation represents the estimated fair value based on risk-adjusted future cash flows of Concentric's incomplete projects at that time

Interest income Interest income in 2001 decreased to $77 9 million from $180 9 million in 2000 The decrease in interest income corresponds to the decrease in our 2001 average cash and marketable securities balances and a reduction in interest rates

Interest expense, net Interest expense, net in 2001 increased to $465 4 million from $434 1 million in 2000 The increase in interest expense, net was primarily due to an increase in our average outstanding indebtedness over the respective periods resulting from our increased borrowings under our Pre-Petition Credit Facility during 2000 and 2001, the issuance of $517 5 million of 5¾% convertible subordinated notes in January 2001, and the assumption of $150 0 million of debt in connection with our June 2000 acquisition of Concentric offset in part by the impact of the repurchase of certain senior notes discussed below, a reduction in interest rates and increased capitalized interest on constructed assets

Other income (loss), net Other income (loss), net decreased from income of $163 6 million in 2000 to a loss of $93 8 million in 2001 The 2001 loss relates primarily to an $89 0 million write down for an other than temporary decline in the value of certain available-for-sale investments The other income in 2000 relates primarily to a $225 1 million gain on the sale of an equity investment partly offset by a $57 7 million write-down for an other than temporary decline in the value of certain available-for-sale investments

Extraordinary gain on repurchases of debt, net In the second half of 2001, we recorded an extraordinary gain totaling $345 0 million related to our repurchase of $557 1 million of senior notes at a substantial discount from their respective face values

Net loss Net loss in 2001 increased to $2,086 1 million from a net loss of $1,101 3 million in 2000 due to the foregoing factors

Gain on repurchases of preferred stock, net In the second half of 2001, we recorded a net gain totaling $376 9 million related to our repurchase of $472 6 million in liquidation preference of our preferred stock at a substantial discount from their respective carrying amounts

Preferred stock dividends and accretion of preferred stock redemption obligation, net Preferred stock dividends and the accretion of the preferred stock redemption decreased to $129 7 million in 2001 from $146 4 million in 2000 due to the impact of the repurchase of the preferred stock discussed above offset in part by the increase in our average outstanding preferred stock balance during the first half of 2001

Net loss applicable to common shares Net loss applicable to common shares in 2001 increased to $1,838 9 million from $1,247 7 million in 2000 due to the foregoing factors

Liquidity and Capital Resources

Our goal is to provide our customers complete, integrated, voice and data network applications and services primarily through networks that we own or control Historically, this strategy has increased our operating losses by requiring us to incur significant costs and to make substantial capital investments before we realize related revenue

We have completed much of the construction relating to our metro fiber networks, which required substantial capital investment We believe that the implementation of the restructuring of our debt and capital under the Plan of Reorganization and the various initiatives we have undertaken to reduce operating costs and capital expenditures over the past two years, positions us to be able to successfully execute our business plans and generate cash flow over the long term However, in the near term we expect to incur net negative cash flows from operating and investing activities

Reorganization Overview, Changes in our Capital Structure

As described in the 2001 Annual Report, in light of conditions in the capital markets and our funding needs, XO took a number of steps during 2001 to conserve cash on hand and raise additional capital However, conditions in the capital markets for telecommunications companies continued to deteriorate, and, in late 2001, we determined that, in light of the substantial declines in market valuation suffered by telecommunications service providers throughout the industry in 2001, we would be unable to obtain the additional funding needed to conduct our business plan without a significant balance sheet reorganization

In order to complete this reorganization, on June 17, 2002, XO Parent filed a voluntary petition for relief under Chapter 11 of the Bankruptcy Code with the Bankruptcy Court Concurrent with its Chapter 11 filing, XO Parent submitted a proposed Plan of Reorganization, which is discussed in detail in the Overview section above, in note 2 to the accompanying consolidated financial statements and in Item 1, "Business – Our Chapter 11 Reorganization" On November 15, 2002, the Plan of Reorganization was confirmed by the Bankruptcy Court On January 16, 2003, XO Parent consummated the transactions contemplated by the Plan of Reorganization and emerged from Chapter 11 bankruptcy protection Under the Plan of Reorganization, XO Parent has emerged from its Chapter 11 proceedings with

- no preferred stock and dividend obligations,
- significantly reduced debt and interest obligations, only $500 million of long-term indebtedness remains, pursuant to the New Credit Agreement, which includes·
    - financial covenants generally more favorable than those included in the Pre-Petition Credit Facility,
    - amended maturity and principal repayment terms modified so that required principal payments are deferred by two and a half years when compared to the Pre-Petition Credit Facility, and
    - amended interest payment terms modified so that no cash interest payments are required to be made by us until we achieve specified financial targets

The maturity date of the outstanding principal under the New Credit Agreement is July 15, 2009 Automatic and permanent quarterly reductions of the principal amount commence on October 15, 2007 with scheduled principal repayments totaling $25 million in 2007, $150 million in 2008 and $325 million in 2009 The security for the New Credit Agreement consists of all of the assets of XO Parent, including stock of its direct and indirect subsidiaries, and all assets of virtually all of those subsidiaries The New Credit Agreement limits additional indebtedness, liens, dividend payments and certain investments and transactions, and contains certain covenants with respect to minimum cash balance, minimum EBITDA (earnings before interest, taxes, depreciation and amortization) requirements and maximum capital expenditures Loans under the New Credit Agreement bear interest, at our option, at an alternate base rate, as defined, or reserve-adjusted London Interbank Offered Rate plus, in each case, applicable margins We are not required to pay cash interest accrued on the principal amount under the New Credit Agreement until we meet certain financial ratios Nevertheless, we may elect to begin paying interest in cash earlier than the required date, but, based on our current funding requirement, we would not anticipate making such an election in the foreseeable future Once we begin to pay accrued interest in cash, even in the case of an early election, the applicable margins are reduced Approximately 85% of the underlying loans of the New Credit Agreement are held by Arnos Corp , an entity controlled by Mr Icahn

Cash Conservation Initiatives

Our balance of cash and marketable securities decreased to $561 0 million at December 31, 2002 from $755 2 million at December 31, 2001 This decrease primarily resulted from capital expenditures during the early part of 2002 relating to the completion of ongoing network construction projects We continue to focus on minimizing the rate at which we use our cash to fund operations and capital expenditures, and preserving cash and marketable securities For the past year, the reduction in the rate at which we use our cash has been accomplished by

- significantly reducing our capital requirements largely due to the completion of several significant technology and network enhancements projects and decreases in success-based capital spending,
- ceasing to pay interest on the Pre-Petition Credit Facility and our pre-petition senior and subordinated unsecured notes and dividends on our preferred stock,
- implementing a series of expense reduction and cash conservation initiatives, which have resulted in the reduction of cost of service and selling, operating and general expenses in both absolute dollars and as a percentage of revenue, and
- improving working capital mainly through aggressive collections of our outstanding accounts receivable, and, to a lesser extent, deferred payment of XO Parent's pre-petition liabilities

Future Funding Needs, Capital Resources and Liquidity Assessment

We expect that, in the near term, our business will use existing cash to fund capital expenditures and working capital requirements The majority of our planned capital expenditure requirements will be "success-based" in that they will be used to purchase and install switches, routers, servers or other customer-related equipment and electronics in connection with adding new customers or increasing the amount of services provided to existing customers Much of the remaining planned capital expenditures will be for the continued development and implementation of our information systems to support and enhance the provisioning and billing of new and existing customers Part of our working capital requirements are commitments under lease and contractual obligations for maintenance and service agreements Such future minimum commitments are as follows (dollars in thousands)

Year Ending December 31,	Operating lease obligations	Capital lease obligations	Other long-term contractual obligations	Total minimum long-term obligations
2003	$ 62,733	$ 10,031	$ 74,126	$ 146,890
2004	59,045	2,809	57,612	119,466
2005	55,600	2,668	17,574	75,842
2006	51,458	2,416	14,577	68,451
2007	47,334	1,733	11,780	60,847
Thereafter	232,550	277	107,277	340,104
Total future minimum long-term obligations	$ 508,720	$ 19,934	$ 282,946	$ 811,600

There are no additional borrowings available under our New Credit Agreement, although, under certain circumstances, the New Credit Agreement permits us to obtain a senior secured facility of up to $200 0 million, less the amount of any proceeds from the Rights Offering, so long as the terms are satisfactory to the administrative agent and holders of a majority of the principal amount of the loans outstanding under the New Credit Agreement Arnos Corp , a company controlled by Mr Icahn, holds approximately 85% of the principal amount of the loans outstanding under the New Credit Agreement Under the Plan of Reorganization and after the SEC has declared effective a registration statement to be filed with the SEC, XO Parent will issue to certain holders of claims and interests in XO Parent who hold such claims and/or interests as of the November 15, 2002 record date, rights to subscribe for up to 43,333,333 shares of New Common Stock, at $5 00 per share, through the Rights Offering Recently, our New Common Stock has been trading at less than $4 00 per share and unless such price increases prior to the conclusion of the Rights Offering, we would not expect much, if any, additional funds to be raised through the Rights Offering

Although we expect that our balance of cash and marketable securities will decline in the near term to fund capital expenditures and working capital requirements discussed above, given (i) our current assumptions with respect to trends in our business, (ii) our estimates concerning the substantially lower level of capital expenditures that we will incur to support our business plan and (iii) the significant reduction in cash needed to meet our debt service requirements because we are not required to pay interest accrued on the New Credit Agreement until we meet certain financial ratios, we believe that the $561 0 million of cash and marketable securities on hand as of December 31, 2002 will be sufficient to fund our operations until the cash flows generated by our operations are sufficient to fund our capital expenditures and debt service requirements.

Credit Risk

Financial instruments that potentially subject us to concentrations of credit risk consist primarily of trade receivables Although our trade receivables are geographically dispersed and include customers in many different industries, a portion of our revenue is generated from services provided to other telecommunications service providers Several of these companies have recently filed for protection under Chapter 11 of the Bankruptcy Code We believe that our established valuation and credit allowances are adequate as of December 31, 2002 to cover these risks

Critical Accounting Policies

As discussed in note 3 to the financial statements, we will be adopting fresh start accounting during the first quarter of 2003, creating, in substance per SOP 90-7, a new reporting entity SOP 90-7 also requires that changes in accounting principles that will be required in the financial statements of the emerging entity within twelve months following the adoption of fresh start reporting be adopted at the time fresh start reporting is adopted

The preparation of the financial statements in accordance with accounting principles generally accepted in the United States requires management to make judgments, estimates and assumptions regarding uncertainties that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses Management uses historical experience and all available information to make these judgments and estimates and actual results could differ from those estimates and assumptions that are used to prepare our financial statements at any given time Despite these inherent limitations, management believes that Management's Discussion and Analysis and the financial statements and footnotes provide a meaningful and fair perspective of the company's financial condition and its operating results Management believes the following critical accounting policies affect its more significant judgments and estimates used in the preparation of its consolidated financial statements included in this Annual Report on Form 10-K

Long-Lived Assets

Our long-lived assets include property and equipment, fixed wireless licenses, and identifiable intangible assets to be held and used Property and equipment is stated at historical cost net of accumulated depreciation Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets The estimated useful lives of telecommunications networks and acquired bandwidth are 5 to 20 years and 3 to 5 years for furniture fixtures, equipment and other Investments in fixed wireless licenses consist of direct costs to acquire fixed wireless licenses The estimated useful life is 20 years, which represents the original ten year license term with one ten year renewal Renewal is conditioned upon the satisfaction of certain utilization requirements established by the FCC Our current utilization may not be sufficient to satisfy this FCC condition on certain licenses which could impact the FCC's decision to renew These useful lives are determined based on historical usage with consideration given to technological changes and trends in the industry that could impact the network architecture and asset utilization This latter assessment is significant because we operate within an industry in which new technological changes could render some or all of our network related equipment obsolete requiring application of a shorter useful life or, in a worst case, a write-off of the entire value of the asset Accordingly, in making this assessment, we consider the views of experts both from internal and outside sources regarding the impact of technological advances and trends in the industry on the value and useful lives of our network assets

Depreciation or amortization of the long-lived asset begins when the asset is substantially complete or placed into service At December 31, 2002, our balance sheet includes approximately $730 6 million of long-lived assets, including construction-in-process and certain fixed wireless licenses, that were either not ready for their intended use or not placed into service, and accordingly are not being depreciated or amortized

In addition, long-lived assets, including property and equipment, fixed wireless licenses, and intangible assets with definite useful lives to be held and used, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount should be addressed pursuant to SFAS No 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," or SFAS No 144 SFAS No 144 supersedes SFAS No 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," or SFAS No 121 In accordance with implementation requirements, we implemented the provisions of SFAS No 144 in 2002 The criteria for determining impairment for long-lived assets to be held and used are generally consistent with SFAS No 121 Pursuant to SFAS No 144, impairment is determined by comparing the carrying value of these long-lived assets to management's best estimate of future undiscounted cash flows expected to result from the use of the assets and their eventual disposition We believe that no impairment existed under SFAS No 144 as of December 31, 2002 and 2001 In the event that there are changes in the planned use of our long-lived assets or our expected future undiscounted cash flows are reduced significantly, our assessment of our ability to recover the carrying value of these assets under SFAS No 144 could change

The majority of our goodwill and other intangibles were acquired in the June 2000 Concentric merger In years prior to 2002, all such costs were amortized using the straight-line method over the estimated useful lives of the assets We wrote off all of our goodwill in the first quarter of 2002 when we performed the transitional impairment tests of goodwill as required by SFAS No 142 All of our other intangibles are definite life assets and are amortized over a period up to 5 years

With our emergence from bankruptcy in early 2003, we will apply fresh start accounting which will result in a significant write-down of our long-lived assets The fair value of our long-lived assets for purposes of fresh start accounting is expected to be approximately $661 0 million

Revenue Recognition

Revenues from telecommunications services are recognized when the services are performed, evidence of an arrangement exists, the fee is fixed and determinable and collectibility is probable Service discounts and incentives related to telecommunications services are recorded as a reduction of revenue when granted or ratably over a contract period Fees billed in connection with customer installations and other upfront charges are deferred and recognized ratably over the estimated customer life Certain direct costs incurred for provisioning and installing a customer are also deferred and recognized ratably over the estimated customer life Sales and commission costs associated with acquiring the new customer are expensed as incurred We believe our methodology appropriately matches the non-recurring and monthly recurring fees with the direct non-recurring costs over the estimated customer life Any net deferred asset appropriately reflects the value of the customer base The estimated customer life is calculated by analyzing customer disconnects as a percentage of revenue This calculation is reviewed every quarter

Revenue from the sale or lease of unlit network capacity is recognized upon consummation of the transaction and the acquirer's acceptance of the capacity in instances when we receive upfront cash payments and are contractually obligated to transfer title to the specified capacity at the end of the contract term If the transaction does not meet these criteria, revenue is recognized ratably over the contract term In 2001, approximately 1 5% of our total revenue was attributed to sales of unlit network capacity There were no sales of unlit network capacity in 2002 or 2000

We establish a valuation allowance for collection of doubtful accounts and other sales credit adjustments Valuation allowances for sales credits are established through a charge to revenue, while valuation allowances for doubtful accounts are established through a charge to selling, operating and general expenses We assess the adequacy of these reserves monthly by evaluating general factors, such as the length of time individual receivables are past due, historical collection experience, the economic and competitive environment, and changes in the credit worthiness of our customers As considered necessary, we also assess the ability of specific customers to meet their financial obligations to us and establish specific valuation allowances based on the amount we expect to collect from these customers We can and have experienced material changes to our reserve requirements on a month to month basis as significant customers have in the past unexpectedly filed for bankruptcy or otherwise became insolvent We believe that our established valuation allowances were adequate as of December 31, 2002 and 2001 If circumstances relating to specific customers change or economic conditions worsen such that our past collection experience and assessment of the economic environment are no longer valid, our estimate of the recoverability of our trade receivables could be changed If this occurs, we adjust our valuation allowance in the period the new information is known

New Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board, or FASB issued SFAS No 143, "Accounting for Asset Retirement Obligations," or SFAS No 143, which requires an entity to recognize the fair value of a liability for an asset retirement obligation in the period in which a legal or contractual removal obligation is incurred if a reasonable estimate of fair value can be made If a reasonable estimate of fair value cannot be made in the period the asset retirement obligation is incurred, SFAS No 143 requires the liability to be recognized when a reasonable estimate of the fair value can be made The provisions of SFAS No 143 are effective for financial statements issued for fiscal years beginning after June 15, 2002 As required by SOP 90-7, we will implement SFAS No 143 during the first quarter of 2003 in conjunction with the implementation of fresh start accounting. The pro forma balance sheet and note 3, included in Item 8, includes an estimated asset retirement obligation of $21 4 million

In April 2002, the FASB issued SFAS No 145, "Rescission of FASB Statements No 4, 44, and 64, Amendment of FASB Statement No 13, and Technical Corrections as of April 2002," or SFAS No 145 SFAS No 145 eliminates the requirement to report material gains or losses from debt extinguishments as an extraordinary item, net of any applicable income tax effect, in an entity's statement of operations SFAS No 145 instead requires that a gain or loss recognized from a debt extinguishment be classified as an extraordinary item only when the extinguishment meets the criteria of both "unusual in nature" and "infrequent in occurrence" as prescribed under Accounting Principles Board Opinion, or APB, No 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions " The provisions of SFAS No 145 are effective for fiscal years beginning after May 15, 2002 with respect to the rescission of SFAS No 4 and for transactions occurring after May 15, 2002, with respect to provisions related to SFAS No 13 We have recognized extraordinary gains from debt repurchases in 2001 and believe that the classification of such gains as extraordinary items will change under SFAS No 145 when we implement fresh start accounting in accordance with SOP 90-7

In June 2002, the FASB issued SFAS No 146, "Accounting for Costs Associated with Exit or Disposal Activities" or SFAS No 146 SFAS No 146 requires that costs, including severance costs, associated with exit or disposal activities be recorded at their fair value when a liability has been incurred Under previous guidance, certain exit costs, including severance costs, were accrued upon managements' commitment to an exit plan, which is generally before an actual liability has been incurred We will apply the provisions of SFAS No 146 to any exit or disposal activities initiated after December 31, 2002

In December 2002, the FASB issued SFAS No 148, "Accounting for Stock-Based Compensation-Transition and Disclosure," or SFAS No 148 SFAS No 148 amends SFAS No 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition to SFAS No 123's fair value method of accounting for stock-based employee compensation SFAS No 148 also amends the disclosure provisions of SFAS No 123 and APB No 28, "Interim Financial Reporting," to require disclosure in the summary of significant accounting policies of the effects of an entity's accounting policy with respect to stock-based employee compensation on reported net income and earnings per share in annual and interim financial statements While SFAS No 148 does not amend SFAS No 123 to require companies to account for employee stock options using the fair value method, the disclosure provisions of SFAS No 148 are applicable to all companies with stock-based employee compensation, regardless of whether they account for that compensation using the fair value method of SFAS No 123 or the intrinsic value method of APB No 28 The provisions of SFAS No 148 are effective for fiscal years beginning after December 15, 2002 with respect to the amendments of SFAS No 123 and effective for financial reports containing condensed financial statements for interim periods beginning after December 15, 2002 with respect to the amendments of APB No 28 We will implement SFAS No 148 effective January 1, 2003 regarding disclosure requirements for condensed financial statements for interim periods Management is currently evaluating the impact of applying the fair value method of accounting for stock based compensation on the Company's results of operations and financial position

Item 7A. Quantitative and Qualitative Disclosure About Market Risk

As of December 31, 2002, we had obligations relating to our outstanding pre-petition redeemable preferred stock, senior notes, and subordinated notes All such obligations were cancelled either in exchange for other consideration or without consideration upon our emergence from Chapter 11 pursuant to the Plan of Reorganization and, therefore, do not subject us to future market risk

On January 16, 2003, the effective date of XO Parent's emergence from Chapter 11, we amended the $1 0 billion Pre-Petition Credit Facility in accordance with the Plan of Reorganization At the effective date, the New Credit Agreement was comprised of $500 0 million junior secured loans with principal amounts payable beginning October 2007, and the rate at which interest accrues under the entire outstanding balance is variable Currently, we do not pay cash interest on the New Credit Agreement However, interest accrues based on variable rates Interest expense and future cash flow exposure are illustrated in the following table (dollars in millions)

Cash Flow Risk	Annual Interest Expense Given an Interest Rate decrease of X Basis Points			No Change in Interest Rates	Annual Interest Expense Given an Interest Rate increase of X Basis Points		
	(150 BPS)	(100 BPS)	(50 BPS)	Fair Value	50 BPS	100 BPS	150 BPS
New Credit Agreement	$29 2	$31 7	$34 2	$36 7	$39 2	$41 7	$44 2

Marketable securities consist of an investment portfolio containing U S government agency issued and other securities with a duration of less than one year These securities are classified as "available for sale " If interest rates were to increase or decrease immediately, it would not likely have a material impact on the fair value of these financial instruments or on the interest we would earn on our investment portfolio as illustrated in the following table (dollars in millions)

Fair Value Risk	Valuation of Securities Given an Interest Rate decrease of X Basis Points			No Change in Interest Rates	Valuation of Securities Given an Interest Rate increase of X Basis Points		
	(150 BPS)	(100 BPS)	(50 BPS)	Fair Value	50 BPS	100 BPS	150 BPS
Financial Assets.							
Marketable securities – over 1 year	$ 247 9	$ 247 5	$ 247 2	$ 246 9	$ 246 6	$ 246 2	$ 245 8

The sensitivity analyses provide only a limited, point-in-time view of the market risk sensitivity of certain of our financial instruments The actual impact of market interest rate and price changes on the financial instruments may differ significantly from those shown in the above sensitivity analyses

We are not currently engaged in the use of off-balance sheet derivative financial instruments, to hedge or partially hedge interest rate exposure

Item 8. Financial Statements and Supplementary Data

Our consolidated financial statements are filed under this Item, beginning on page F-1 of this Report

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

On May 15, 2002, we dismissed our independent auditors, Arthur Andersen LLP, and appointed Ernst & Young LLP to serve as our new independent auditors for the year ending December 31, 2002 Our Board of Directors approved this decision We filed a current report on Form 8-K with the SEC on May 16, 2002, which included a notification that the change was effective on May 15, 2002

Arthur Andersen's report on our financial statements for the fiscal year ending December 31, 2000 did not contain an adverse opinion or disclaimer of opinion, nor were such reports qualified or modified as to uncertainty, audit scope or accounting principles Arthur Andersen's report on the Company's financial statements for the fiscal year ending December 31, 2001 included an explanatory paragraph that discussed the substantial doubt concerning our ability to continue as a going concern

During each of the two fiscal years ending December 31, 2000 and 2001, there were· (i) no disagreements with Arthur Andersen on any matter of accounting principle or practice, financial statement disclosure or auditing scope or procedure which, if not resolved to Arthur Andersen's satisfaction, would have caused them to make reference to the subject matter in connection with their report on our financial statements for such years, and (ii) there were no reportable events as defined in Item 304(a)(1)(v) of Regulation S-K

During each of our two fiscal years ending December 31, 2000 and 2001 and through the date of their appointment, we did not consult Ernst & Young with respect to the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on our financial statements, or any other matters or reportable events as set forth in Items 304(a)(2)(i) and (ii) of Regulation S-K

PART III

Item 10. Directors and Executive Officers of the Registrant

Prior to January 16, 2003, effective date of our Plan of Reorganization, our Board of Directors was comprised of the following individuals Daniel F Akerson, Nathaniel A Davis, Nicolas Kauser, Craig O McCaw, Sharon L Nelson, Henry R Nothhaft, Jeffrey S Raikes, Peter C Waal, and Dennis M Weibling Additional information concerning these former board members is included in our Annual Report on Form 10-K for the year ended December 31, 2001

The names, ages and positions with XO of our current directors and executive officers are listed below

Name	Age	Position
Carl C Icahn (1)	67	Chairman of the Board of Directors
Nathaniel A Davis	49	President, Chief Operating Officer and Director
Andrew R Cohen (1)	41	Director
Adam Dell (2)	32	Director
Vincent J Intrieri (2)(3)	46	Director
Keith Meister (1)(3)	29	Director
Nancy B Gofus	49	Executive Vice President, Marketing and Customer Care
Michael S Ruley	43	Executive Vice President, Market Sales Operations
Gary D Begeman	44	Senior Vice President, General Counsel and Secretary
Mark W Faris	48	Senior Vice President, Network Operations
John H Jacquay	50	Senior Vice President, National Sales
Wayne M Rehberger	46	Senior Vice President, Chief Financial Officer
R Gerard Salemme	49	Senior Vice President, Regulatory and Legislative Affairs
William Garrahan	45	Vice President, Corporate Development and Strategic Planning

(1) Member of the Executive Committee of the Board of Directors

(2) Member of the Audit Committee of the Board of Directors

(3) Member of the Compensation Committee of the Board of Directors

Brief biographies of our directors are set forth below

Carl C Icahn Mr Icahn has served as our Chairman of the Board of Directors since January 2003 Since 1984, he has served as the Chairman of the Board and a Director of Starfire Holding Corporation (formerly Icahn Holding Corporation), a privately-held holding company, and Chairman of the Board and a Director of various subsidiaries of Starfire, including ACF Industries, Incorporated, a privately-held railcar leasing and manufacturing company Since 1968, he served as the Chairman of the Board and President of Icahn & Co , Inc , a registered broker-dealer and a member of the National Association of Securities Dealers Since November 1990, Mr Icahn has been Chairman of the Board of American Property Investors, Inc , the general partner of American Real Estate Partners, L P , a public limited partnership that invests in real estate Since 1993, Mr Icahn has been a Director of Cadus Pharmaceutical Corporation, a firm which holds various biotechnology patents Since October 1998, Mr Icahn has been the President and a Director of Stratosphere Corporation which operates the Stratosphere Hotel and Casino Since September 2000, Mr Icahn has served as the Chairman of the Board of GB Holdings, a holding company that owns the Sands Hotel and Casino in Atlantic City, New Jersey

Nathaniel A Davis Mr Davis has served as our President and Chief Operating Officer since joining XO in January 2000 In February 2000, he was elected to serve on our Board of Directors From October 1998 to January 2000, Mr Davis served as Executive Vice President of Technical Services for Nextel Communications From November 1996 to September 1998, Mr Davis was Chief Financial Officer of U S Operations at MCI Mr Davis currently serves as a director of Mutual of America Capital Management Corporation and XM Satellite Radio, Inc

Andrew R Cohen Mr Cohen has been a member of our Board of Directors since January 2003 Since 2000, he has served as Chief Technology Officer of Icahn Associates Corp From 1999 to 2000, Mr Cohen served as senior vice president and chief technology officer of American Greetings & Americangreetings com From 1998 to 1999, he served as President of CNS Development, which provides website transaction consulting services From 1992 to 1998, Mr Cohen served as vice president of development of Micrografx, Inc , a consumer and business enterprise software company

Adam Dell Mr Dell has been a member of our Board of Directors since January 2003 Since January 2000, he has served as the Managing General Partner of Impact Venture Partners, a venture capital firm focused on information technology investments From October 1998 to January 2000, Mr Dell was a Senior Associate and subsequently a Partner with Crosspoint Venture Partners in Northern California From July 1997 to August 1998, he was a Senior Associate with Enterprise Partners in Southern California From January 1996 to June 1997 Mr Dell was associated with the law firm of Winstead Sechrest & Minick, in Austin, Texas, where he practiced corporate law

Vincent J Intrieri Mr Intrieri, has been a member of our Board of Directors since January 2003 Since March 2003, he has been Managing Director of Icahn Associates Corp From 1998 to March 2003, he served as a portfolio manager of High River Limited Partnership From 1995 to 1998, Mr Intrieri served as portfolio manager for distressed investments with Elliot Associates L P , a New York investment fund Prior to 1995, Mr Intrieri was a partner at the Arthur Anderson accounting firm and is a certified public accountant Mr Intrieri currently serves on the board of TransTexas Gas Corporation

Keith Meister Mr Meister has been a member of our Board of Directors since January 2003 Since June 2002, he has served as senior investment analyst of High River Limited Partnership From March 2000 through 2001, Mr Meister co-founded and served as co-president of J Net Ventures, a venture capital fund focused on investments in information technology and enterprise software businesses From 1997 through 1999, Mr Meister served as an investment professional at Northstar Capital Partners, an opportunistic investment partnership with assets in excess of $2 billion From 1995 to 1997, Mr Meister served as an investment analyst in the investment banking group at Lazard Freres

Nancy B Gofus Ms Gofus has served as our Executive Vice President, Marketing and Customer Care since September 2000 and was our Senior Vice President and Chief Marketing Officer from January 2000 until September 2000 From March 1999 to December 1999, she was the Chief Operating Officer of Concert Management Services, Inc , which previously was a wholly-owned subsidiary of British Telecom and is a global provider of managed telecommunications services From March 1995 to March 1999, Ms Gofus was Concert's Senior Vice President of Marketing

Michael S Ruley Mr Ruley has been Executive Vice President, Market Sales Operations since March 2001 From June 1999 to March 2001, he was our President, West Region From April 1998 to June 1999, he was the President of our Southwest Region From June 1996 to April 1998, Mr Ruley held various positions at Teleport Communications Group, including Regional Vice President of the Pacific Bell Territory and Vice President and General Manager of both the San Francisco and Colorado markets

Gary D Begeman Mr Begeman has served as our Senior Vice President, General Counsel and Secretary since November 1999 From May 1997 to November 1999, he was Deputy General Counsel of Nextel Communications, and from August 1999 to November 1999, he also was a Vice President of Nextel Communications From January 1992 to May 1997, Mr Begeman was a partner of the law firm Jones, Day, Reavis & Pogue, specializing in corporate and securities law and mergers and acquisitions

Mark W Faris Mr Faris has been our Senior Vice President, Network Operations since April 2001 From September 2000 to April 2001, he was the Chief Operating Officer of Gemeni Networks From March 2000 to September 2000, Mr Faris was President and Chief Operating Officer of BlueStar Communications Prior to that, he had been employed by Southwestern Bell for over 20 years

John H Jacquay Mr Jacquay has been our Senior Vice President, National Sales since February 2002 From November 1999 to February 2002, he was Chairman and Chief Executive Officer of Pagoo, Inc From January 1999 to July 1999, Mr Jacquay was President and Chief Operating Officer of GRIC Communications From 1997 to 1999, he was Chief Operating Executive - Regulated Industries unit of MCI Systemhouse From 1996 to 1997, Mr Jacquay was President - Network Services of US ONE Communications

Wayne M Rehberger Mr Rehberger has served as our Senior Vice President, Chief Financial Officer since December 2000 From April 2000 to August 2000, he was Chief Financial Officer of Nettel Communications On September 28, 2000, Nettel filed a voluntary petition under Chapter 11 of the U S Bankruptcy Code From August

2000 to October 2000, Mr Rehberger was our Senior Vice President of Finance From April 1999 to March 2000, Mr Rehberger was Senior Vice President of Finance at MCI WorldCom From June 1986 to March 1999, he held other senior level finance positions at MCI

R Gerard Salemme Mr Salemme has served as our Senior Vice President, Regulatory and Legislative Affairs since January 2000 From March 1998 to January 2000, he served as our Senior Vice President, External Affairs and Industry Relations From July 1997 to March 1998, he was our Vice President, External Affairs and Industry Relations From December 1994 to July 1997, Mr Salemme was Vice President, Government Affairs at AT&T Corp

William Garrahan Mr Garrahan has served as our Vice President, Corporate Development and Strategic Planning since July 2001 From September 1996 to February 2001, he was a Senior Vice President with Lehman Brothers, in its equity research department

Each director will hold office until the first meeting of stockholders immediately following expiration of his one-year term of office and until his successor is qualified and elected, or until his earlier resignation or removal We do not have a classified or staggered board

As discussed above, on June 17, 2002, XO Parent filed a voluntary petition for bankruptcy under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the Southern District of New York, and emerged from bankruptcy on January 16, 2003 Messrs Davis, Ruley, Jacquay, Begeman, Faris, Rehberger, Salemme and Garrahan and Ms Gofus each were executive officers of XO Parent during the bankruptcy proceedings

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires our directors, executive officers and any person who owns more than 10% of our common stock, whom were refer to collectively as the Reporting Persons, to file with the Securities and Exchange Commission reports of ownership and reports of changes in ownership of our common stock Under Securities and Exchange Commission rules, we receive copies of all Section 16(a) forms that these Reporting Persons file We have reviewed copies of these reports and written representations from the Reporting Persons We believe all Reporting Persons complied with their Section 16(a) reporting obligations during 2002, except for the following individuals Messrs Davis, Begeman, Rehberger, Salemme, Ms Gofus and Doug Carter and Scott Macleod, former executive officers of ours, had a late Form 5 filing with respect to the cancellation of certain options to purchase pre-petition class A common stock in connection with our May 2001 option exchange program, Mr Faris had a late Form 5 filing with respect to the purchase of shares of pre-petition class A common stock under our employee stock purchase plan, and Jeffrey S Raikes, a former member of our Board of Directors, had a late Form 4 filing with respect to the sale of shares of our pre-petition class A common stock

Item 11. Executive Compensation

Summary Compensation Table

The following table sets forth, for the fiscal years ended December 31, 2002, 2001, and 2000, individual compensation information for our Chief Executive Officer, and each of our four most highly compensated executive officers, whom we refer to collectively as the Named Executive Officers

		Annual Compensation		Long Term Compensation Awards		
Name and Principal Position	Year	Salary ($)	Bonus ($) (1)	Restricted Stock Award(s) ($)(2)	Securities Underlying Options (#) (3)	All Other Compensation ($) (4)
Daniel F Akerson	2002	377,303(5)	—(5)	—	—	5,606
Chief Executive Officer	2001	318,006(5)	—(5)	—	—	38,331
	2000	500,000	477,950	—	500,000	57,580
Nathaniel A Davis	2002	382,212	—	—	1,423,750	8,769
President and Chief Operating Officer	2001	375,000	296,136	432,500	—	194
	2000	375,000	239,524	—	1,975,000	179
R Gerard Salemme (6)	2002	217,300	85,417	—	59,500	3,224
Senior Vice President, Regulatory and	2001	213,200	223,655	86,500	—	6,787
Legislative Affairs	2000	221,400	205,000	—	70,000	8,687

Michael S Ruley	2002	280 289	—	—	301,665	9,329
Executive Vice President, Market Sales	2001	268,846	192,653	51 900	—	56,848
Operations	2000	244,443	191,648	—	253,100	36,324
Nancy B Gofus.	2002	275,000	—	—	212 500	9,489
Executive Vice President Marketing	2001	275,000	178,503	51,900	—	8,950
and Customer Care	2000	253,846	157,723	—	350,000	3,154

(1) Includes bonuses earned for the corresponding fiscal years that were paid subsequent to the stated calendar year end No bonuses were paid to any Named Executive Officer with respect to performance for 2002, other than to Mr Salemme In connection with XO Parent's Chapter 11 proceedings, we adopted the XO Communications, Inc Employee Retention and Incentive Plan For a summary of the terms of the Employee Retention and Incentive Plan and Mr Salemme's compensation arrangements, please see "Employment Agreements and Other Arrangements' below

(2) Represents an award of shares of our pre-petition class A common stock granted on August 20, 2001, which shares were restricted and subject to forfeiture until vested *All such shares were forfeited in 2002, and no shares were outstanding at December 31, 2002*

(3) Represents options to acquire shares of class A common stock Share figures have been restated retroactively to reflect stock splits with respect to our class A common stock Grants in 2002 were made in connection with the Offer to Exchange with respect to outstanding options that we undertook in May 2001 See ' Report on Repricing of Options ' in our Annual Report on Form 10-K for *the year ended December* 31, 2001 Pursuant to XO Parent's Plan of Reorganization, all interests in such stock options and such shares of class A common stock issued upon exercise thereof, were cancelled and terminated effective January 16, 2003, the date that the Plan of Reorganization was consummated

(4) For 2002, includes for Mr Akerson $5,404 for contributions made by us on behalf of Mr Akerson under our 401(k) Plan and $202 for premiums for group term life insurance paid by us, for Mr Davis $8,558 for contributions made by us on behalf of Mr Davis under our 401(k) Plan and $211 for premiums for group term life insurance paid by us, for Mr Salemme $3,116 for contributions made by us on behalf of Mr Salemme under our 401(k) Plan and $108 for premiums for group term life insurance paid by us, for Mr Ruley $1,216 for reimbursement of relocation expenses, $8,000 for contributions made by us on behalf of Mr Ruley under our 401(k) Plan and $113 for premiums for group term life insurance paid by us, for Ms Gofus $9,309 for contributions made by us on behalf of Ms Gofus under our 401(k) Plan and $180 for premiums for group term life insurance paid by us

(5) In August 2001, Mr Akerson elected to forgo all of his salary for the period between August 2001 and April 2002, after which time he elected to receive his salary For 2001, he elected not to receiv e a bonus In January 2003, Mr Akerson received a payment of $750,000 under the XO Communications, Inc Employee Retention and Incentive Plan described below Mr Akerson resigned as Chief Executive Officer effective January 17, 2003

(6) Salary bonus and 401(k) Plan payments are made to Communications Consultants, Inc , which employs Mr Salemme and from which we retain Mr Salemme for service as our Senior Vice President, Regulatory and Legislative Affairs See "Certain Relationships And Related Transactions" For a summary of Mr Salemme's compensation arrangements, please see "Employment Agreements and Other Arrangements" below

Option Grants in Last Fiscal Year

Share and per share figures (including exercise or base price figures) have been restated retroactively to reflect stock splits with respect to our pre-petition class A common stock All option grants in 2002 were made in connection with the Offer to Exchange with respect to outstanding options that we *undertook in* May 2001 See "Report on Repricing of Options" in our Annual Report on Form 10-K for the year ended December 31, 2001 Pursuant to XO Parent's Plan of Reorganization, all interests in such stock options and all such shares issuable upon exercise thereof were cancelled and terminated effective January 16, 2003, the date that the Plan of Reorganization was consummated

	Individual Grants(1)					Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Terms ($)(2)		
Name	Number of Securities Underlying Options Granted (#)	% of Total Options Granted to Employees in Fiscal Year (%)	Exercise or Base Price ($/Sh)	Market Price on Date of Grant ($/Sh)	Expiration Date	0%	5%	10%
Daniel F Akerson	—	—	N/A	N/A	N/A	N/A	N/A	N/A
Nathaniel A Davis	1,423,750	5 71	0 14	0 14	January 16, 2012	0	125,355	317,673
R Gerard Salemme	59,500	0 24	0 14	0 14	January 16, 2012	0	5,239	13,276
Michael S Ruley	301,665	1 21	0 14	0 14	January 16, 2012	0	26,561	67,308
Nancy B Gofus.	212,500	0 86	0 14	0 14	January 16, 2012	0	18,710	47,413

(1) All options were granted on January 17, 2002, at which time 30% of the shares subject to the option were vested, with the remainder vesting monthly on a ratable basis over the 36-month period commencing on the date of grant

(2) The potential realizable value illustrates value that might be realized upon exercise of the options immediately prior to the expiration of their terms, assuming the specified compounded rates of appreciation of the market price per share from the date of grant to the end of the option term The gains shown are net of the option exercise price, but do not include deductions for taxes and other expenses payable upon the exercise of the option or for sale of underlying shares of pre-petition class A common stock No Named Executive Officer, however realized or can realize any value with respect to such grants because, pursuant to XO Parent's Plan of Reorganization, all interests in such stock options and all such shares issuable upon exercise thereof were cancelled and terminated effective January 16, 2003, the date that the Plan of Reorganization was consummated, and no Named Executive Officer exercised any such option prior to January 16, 2003

Aggregated Option Exercises and Fiscal Year-End Option Values

Name	Shares Acquired on Exercise (#)	Value Realized ($)	Number of Securities Underlying Unexercised Options at Fiscal Year-End (#)(1)		Value of Unexercised In-the-Money Options at Fiscal Year-End ($)(2)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Daniel F Akerson	—	—	5,200,000	1,000,000	129,600	0
Nathaniel A Davis	—	—	731,648	892,102	0	9,600
R Gerald Salemme	—	—	400,876	28 924	0	0
Michael S Ruley	—	—	561,319	158,646	283	566
Nancy B Gofus	—	—	159,201	153,299	2,400	2,400

(1) Pursuant to XO Parent's Plan of Reorganization, all interests in such stock options, all such shares issued upon exercise thereof, were cancelled and terminated effective January 16, 2003, the date that the Plan of Reorganization was consummated

(2) For purposes of these calculations, the value of our pre-petition class A common stock was $0 053 per share, which was derived based on trading on the *Nasdaq Over-the-Counter Bulletin Board* Nevertheless, XO Parent s Plan of Reorganization provided that interests in its pre-petition class A common stock would be cancelled and terminated without any recovery, and none of the Named Executive Officers exercised any exercisable options set forth above prior to the effective date of such plan

Employment Agreements and Other Arrangements

Nathaniel A Davis We have entered into an employment agreement with Mr Davis that provides for his employment as President and Chief Operating Officer through January 3, 2004 It provides for an annual base salary of $375,000, which we may increase annually, and for an annual bonus of up to 70% of base salary, as determined by our Board of Directors Pursuant to the agreement, we granted Mr Davis options to purchase 1,650,000 shares of our pre-bankruptcy class A common stock Of these options, Mr Davis exchanged options to purchase 1,350,000 shares of class A common stock for options to purchase 1,147,500 shares class A common stock in connection with the Offer to Exchange with respect to outstanding options that we undertook in May 2001 See "Report on Repricing of Options" in our Annual Report on Form 10-K for the year ended December 31, 2001 All of the options granted to Mr Davis and all shares of class A common stock issued or issuable upon exercise thereof, were cancelled and terminated effective January 16, 2003, the date that XO Parent's Plan of Reorganization was consummated

Mr Davis's employment agreement also provides that in the event of permanent disability during his employment term, we will pay him his existing base salary and will make all of his benefit payments for a period of twelve months following the date of the disability In addition, it provides that in the event that Mr Davis's employment is terminated by us other than for cause, is constructively terminated or is terminated upon or following a change in control, we will pay him his existing base salary, annual bonus and benefits that he would have received from the time of termination to the expiration of the agreement's initial term Under certain circumstances, we will make additional payments to Mr Davis for taxes due with respect to any payments or benefits under his agreement treated as an "excess parachute payment" within the meaning of Section 280G of the Internal Revenue Code or any comparable provision of state or local tax law

Under the employment agreement, Mr Davis's employment is constructively terminated if he terminates his employment as a direct result of

- a reduction in his initial base salary or in the maximum permitted annual bonus percentage,
- a material change in his responsibilities that is inconsistent with his position, or
- our material breach of the agreement

Under the employment agreement, a change of control means the occurrence of any of the following events, subject to certain exceptions·

- we merge with another company where our stockholders hold less than a majority of the combined voting power of the company surviving the merger,

- we sell all or substantially all of our assets to any other company,
- 51% or more of our outstanding voting stock is acquired by a person, entity or "group" (within the meaning of Rule 13d-5(b) under the Securities Exchange Act of 1934), and
- similar transactions or events

Mr Davis is subject to confidentiality and non-competition restrictions during the employment term and for a period of two years after the termination of the employment In the event that Mr Davis's employment is constructively terminated or terminates following the occurrence of a change in control, he will not be subject to the non-competition restrictions The transactions contemplated by or Plan of Reorganization resulted in a change of control for purposes of this agreement

R Gerard Salemme We have entered into a letter agreement, by and among Communications Consultants, Inc , XO Communications, Inc , Eagle River Investments, L L C and Mr Salemme, which sets forth the terms and conditions under which we have agreed to retain Mr Salemme for service as XO Parent's Senior Vice President, Regulatory and Legislative Affairs through November 1, 2003 Pursuant to the letter agreement, Mr Salemme, who is employed by Communications Consultants, Inc , is required to spend at least 82% of his business time and effort providing services to us, and we are responsible for 82% of his salary and bonus compensation Pursuant to his arrangements with Communications Consultants, Mr Salemme received a bonus of $208,333 paid in two installments, the first as of the December 17, 2002 date of the agreement and the second as of the January 16, 2003 date that our Plan of Reorganization was consummated We were responsible for 82% of those bonus installments Mr Salemme is not a participant in the XO Communications, Inc Employee Retention and Incentive Plan

Michael S Ruley We have entered into an employment agreement with Mr Ruley Although the initial term of the agreement has expired, Mr Ruley's employment is governed by the terms of the employment agreement until one party provides 60 days prior written notice to the other of a termination of employment, or Mr Ruley's employment otherwise terminates pursuant to the terms of the agreement The agreement provides for an annual base salary of $250,000, which we may increase annually, and for an annual bonus of up to 55% of base salary, as determined by our Board of Directors

Mr Ruley's employment agreement also provides that in the event of permanent disability during his employment term, we will pay him his existing base salary and will make all of his benefit payments for a period of twelve months following the date of the disability In addition, it provides that in the event that Mr Ruley's employment is terminated by us other than for cause, is constructively terminated or is terminated upon or following a change in control, we will pay him his existing base salary, annual bonus and benefits that he would have received for the six-month period following the date of termination Under certain circumstances, we will make additional payments to Mr Ruley for taxes due with respect to any payments or benefits under his agreement treated as an "excess parachute payment" within the meaning of Section 280G of the Internal Revenue Code or any comparable provision of state or local tax law

Under the employment agreement, Mr Ruley's employment is constructively terminated if he terminates his employment as a direct result of

- a reduction in his initial base salary or in the maximum permitted annual bonus percentage,
- a material change in his responsibilities that is inconsistent with his position, or
- our material breach of the agreement

Under the employment agreement, the definition of a "change of control" has substantially the same meaning as set forth in Mr Davis's employment agreement, the terms of which are summarized above

Mr Ruley is subject to confidentiality and non-competition restrictions during the employment term and for a period of two years after the termination of the employment In the event that Mr Ruley's employment is constructively terminated or terminates following the occurrence of a change in control, he will not be subject to the non-competition restrictions The transactions contemplated by our Plan of Reorganization resulted in a change of control for the purposes of this agreement

Daniel F Akerson We had entered into an employment agreement with Mr Akerson The initial term of the agreement expired in September 2002, and Mr Akerson resigned his position with us and our Board of Directors effective January 17, 2003 Following expiration of the initial term, Mr Akerson's employment was governed by the terms of the employment agreement until one party provided 60 days prior written notice to the other of a termination of employment, or Mr Akerson's employment otherwise terminates pursuant to the terms of the agreement The agreement provided for an annual base salary of $500,000, and for an annual bonus of up to 100% of base salary, as determined by our Board of Directors In August 2001, Mr Akerson elected to forgo all of his salary for all periods after August 2001, but for the nominal amount necessary to cover medical and related benefits For 2002, he elected not to receive a bonus In April 2002, Mr Akerson elected to receive his salary again

Pursuant to the agreement, we granted Mr Akerson options to purchase 6,000,000 shares of our pre-bankruptcy class A common stock All of the options granted to Mr Akerson and all shares of class A common stock issued or issuable upon exercise thereof, were cancelled and terminated effective January 16, 2003, the date that XO Parent's Plan of Reorganization was consummated

Employee Retention and Incentive Plan In connection with our Plan of Reorganization, we established the XO Communications, Inc Employee Retention and Incentive Plan, which we refer to as the Retention and Incentive Plan The Retention and Incentive Plan became effective on October 23, 2002 with the Bankruptcy Court's approval The primary purposes of the Retention and Incentive Plan (a) was to encourage certain of our key employees (including the Named Executive Officers) to continue their employment with us during the period of our restructuring and (b) is to establish incentives for those employees to achieve certain corporate performance goals, including the completion of XO Parent's Chapter 11 reorganization and achieving certain earnings objectives

The Retention and Incentive Plan provides that bonuses, in amounts for each employee as determined by the compensation committee of our board of directors, will be earned and paid in three installments upon our successful emergence from bankruptcy and upon the achievement of certain earnings targets after such emergence as follows

- Twenty-five percent (25%) of each participant's bonus target was paid concurrent with the consummation of the Plan of Reorganization, which bonuses were paid to all eligible participants,
- Up to 37 5% of each participant's bonus target will be paid as soon as practical following the date that we file with the SEC our quarterly report on Form 10-Q for the quarter ended June 30, 2003, which we refer to as the First Bonus, and
- Up to an additional 37 5% of each participant's bonus target will be paid as soon as practical following the date that we file with the SEC our annual report on Form 10-K for the year ended December 31, 2003, which we refer to as the Second Bonus

The amount of a participant's First Bonus and Second Bonus will be based on our EBITDA (as defined below) reported on, and continued employment until, the respective dates that we file the applicable quarterly and annual reports with the SEC If our EBITDA is less than 75% of the Target EBITDA (as defined below) for the applicable period, then the amount of the First Bonus and/or Second Bonus, as applicable, shall be zero and no bonuses shall be paid with respect to such date(s) If our EBITDA is 75% to 100% of the Target EBITDA for the applicable period, then the amount of the First Bonus and/or Second Bonus, as applicable, shall be 75% of the applicable bonus target If our EBITDA is greater than 100% of the Target EBITDA for the applicable period, then 100% the applicable bonus target shall be paid with respect to such date(s)

For purposes of the Retention and Incentive Plan, "EBITDA" generally means, for the applicable 6-month period, subject to further definition in the Retention and Incentive Plan, an amount determined for us on a consolidated basis equal to (i) the sum of the amounts for such period of (a) consolidated net income, (b) consolidated interest expense, (c) provisions for taxes, (d) total depreciation expense, (e) total amortization expense, and (f) other non-cash items reducing consolidated net income, minus (ii) other non-cash items increasing consolidated net income, provided, however that, when calculating EBITDA for purposes of the Retention and Incentive Plan, earnings shall not be reduced by any payment made pursuant to the Retention and Incentive Plan

For purposes of the Retention and Incentive Plan, "Target EBITDA" means, with respect to the First Bonus, $14 3 million, and, with respect to the Second Bonus, $27 1 million

The maximum amount available under the Retention and Incentive Plan for all Retention Bonuses is $25,000,000

The plan administrator for the Retention and Incentive Plan is authorized to reduce on a pro-rata basis or eliminate a bonus for any participant whose employment with us is terminated for any reason prior to the applicable target dates

The table below sets forth the maximum amounts that may be earned under the Retention and Incentive Plan by the Named Executive Officers Mr Salemme is not eligible to participate in the Retention and Incentive Plan

Name	Dollar Value
Daniel F Akerson	$750,000 (1)
Nathaniel A Davis .	$562,500 (2)
R Gerard Salemme	N/A
Michael S Ruley	$343,750 (2)
Nancy Gofus	$343,750 (2)

(1) Pursuant to the terms of the Retention and Incentive Plan, this amount was paid in full in connection with our emergence from bankruptcy on January 16, 2003

(2) Pursuant to the terms of the Retention and Incentive Plan, 25% of these amounts were paid in connection with our emergence from bankruptcy on January 16, 2003 The remaining 75% of these amounts are subject to forfeiture in connection with the terms of the Retention and Incentive Plan related to the First Bonus and the Second Bonus described above

Vesting of Stock Options in Connection With a Change of Control of XO In recognition that the possibility of a change of control exists and the desire to secure both the present and future continuity of management, the XO Communications, Inc 2002 Stock Incentive Plan provides that in certain circumstances unvested stock options granted under the Stock Incentive Plan will vest in full in connection with a change of control of XO Under the Stock Incentive Plan, options granted to non-affiliated directors will vest in full immediately upon a change of control, and options granted to employees whose employment is terminated without cause, and certain officers (including those Named Executive Officers who are currently executive officers of us) whose employment is terminated by us without cause or by such an officer for good reason, within one year of the change of control will vest in full Under the Stock Incentive Plan, a change of control means the occurrence of any of the following events, subject to certain exceptions

- we merge with another company where our stockholders hold less than a majority of the combined voting power of the company surviving the merger,
- we sell all or substantially all of our assets to any other company,
- 51% or more of the outstanding voting stock of XO is acquired by a person, entity or "group" (within the meaning of Rule 13d-5(b) under the Securities Exchange Act of 1934); and
- similar transactions or events

Because the Stock Incentive Plan took effect in connection with the consummation of our Plan of Reorganization, the transactions contemplated thereby were not deemed a change of control for purposes of the Stock Incentive Plan

Under the Stock Incentive Plan, good reason means the occurrence of any of the following events

- significant, adverse change in duties, responsibilities and authority,
- relocation of more than 30 miles,
- reduction of salary or bonus potential; and
- uncured breach of employers' contractual obligations

Director Compensation

Each director is entitled to reimbursement for out-of-pocket expenses incurred for each meeting of the full Board or a committee of the Board attended Our pre-petition stock option plans permitted, and our 2002 Stock Incentive Plan permits, grants and awards to non-employee directors We made no such grants in 2002

Compensation Committee Interlocks and Insider Participation

During 2002, Messrs Jeffrey S Raikes, Peter C Waal and Dennis M Weibling served on the Compensation Committee of our Board of Directors. From September 1994 to January 1997, Mr Weibling was Executive Vice

President of XO Effective January 16, 2003, each of Messrs Raikes, Waal and Weibling resigned from our Board of Directors and all committees thereof

Item 12. Security Ownership of Certain Beneficial Owners and Management

The following table sets forth information, as of March 1, 2003, with respect to the beneficial ownership of our New Common Stock by (1) each member of the Board of Directors, (2) the Named Executive Officers (3) all directors and executive officers as a group, and (4) persons known to us to be the beneficial owners of more than five percent of a class of our New Common Stock

Name	Shares Beneficially Owned: Amount and Nature of Ownership(1)	Shares Beneficially Owned: Percent of Class (%)
Carl Icahn (2)	85,583,827	83 5
Nathaniel A Davis (3)	325,000	*
Andrew R Cohen	0	—
Adam Dell	0	—
Vincent J Intrieri	0	—
Keith Meister	0	—
R Gerard Salemme (4)	81,250	*
Michael S Ruley (5)	112,500	*
Nancy Gofus (6)	97,500	*
All directors and executive officers as a group (13 persons)(7)	86,613,827	83 7

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(1) Under the rules of the Securities and Exchange Commission, a person is deemed to be the beneficial owner of a security if such person, directly or indirectly, has or shares the power to vote or direct the voting of such security or the power to dispose or direct the disposition of such security A person is also deemed to be a beneficial owner of any securities if that person has the right to acquire beneficial ownership within 60 days after March 1, 2003 Accordingly, more than one person may be deemed to be a beneficial owner of the same securities Unless otherwise indicated by footnote, the named individuals have sole voting and investment power with respect to the shares of our common stock beneficially owned. Share figures do not represent any right to participate in the Rights Offering pursuant to the Plan of Reorganization

(2) As reported in the Schedule 13D of Mr Icahn and other parties to a joint filing agreement filed with the SEC, represents 78,078,993 shares of New Common Stock held by Cardiff Holding LLC, a Delaware limited liability company, and 3,001,936 shares of New Common Stock issuable upon exercise of Series A warrants, 2,251,449 shares of New Common Stock issuable upon exercise of Series B warrants, and 2,251,449 shares of New Common Stock issuable upon exercise of Series C warrants, all held by Cardiff Cardiff is wholly-owned by ACF Industries Holding Corp, a Delaware corporation, which is wholly-owned by Highcrest Investors Corp, a Delaware corporation, which is approximately 99% owned by Buffalo Investors Corp, a New York corporation, which is wholly-owned by Starfire Holding Corporation, a Delaware corporation, which is wholly-owned by Mr Icahn Mr Icahn is the chairman and sole director of Starfire Holding, and the chairman and a director of each of Cardiff, ACF Industries, Highcrest Investors and Buffalo Investors Additional shares of New Common Stock and warrants to purchase shares of New Common Stock may be allocated to Cardiff on a pro rata basis under the Plan of Reorganization to the extent that shares and warrants held back in respect of claims of general unsecured creditors of XO Parent ultimately are redistributed under the terms of the Plan of Reorganization

(3) Represents shares of New Common Stock obtainable as of March 1, 2003 or 60 days thereafter by Mr Davis upon the exercise of nonqualified stock options, which options were granted to Mr Davis in conjunction with consummation of XO Parent's Plan of Reorganization and its emergence from its Chapter 11 proceeding

(4) Represents shares of New Common Stock obtainable as of March 1, 2003 or 60 days thereafter by Mr Salemme upon the exercise of nonqualified stock options, which options were granted to Mr Salemme in conjunction with consummation of XO Parent's Plan of Reorganization and its emergence from its Chapter 11 proceeding

(5) Represents shares of New Common Stock obtainable as of March 1, 2003 or 60 days thereafter by Mr Ruley upon the exercise of nonqualified stock options, which options were granted to Mr Ruley in conjunction with consummation of XO Parent's Plan of Reorganization and its emergence from its Chapter 11 proceeding

(6) Represents shares of New Common Stock obtainable as of March 1, 2003 or 60 days thereafter by Ms Gofus upon the exercise of nonqualified stock options, which options were granted to Ms Gofus in conjunction with consummation of XO Parent's Plan of Reorganization and its emergence from its Chapter 11 proceeding

(7) Represents (a) 78,078,993 shares of New Common Stock held by Cardiff, as described in note2 above, (b) warrants to purchase 7,504,834 shares of New Common Stock held by Cardiff, as described in note2 above, and (c) 1,030,000 shares of New Common Stock obtainable as of March 1, 2003 or 60 days thereafter by executive officers as a group upon the exercise of nonqualified stock options, which options were

granted to such executive officers in conjunction with consummation of XO Parent's Plan of Reorganization and its emergence from its Chapter 11 proceeding See notes (3), (4), (5) and (6) above

*Less than 1%

Equity Compensation Plan Information

Our Pre-Petition Stock Option Plans

As of December 31, 2002, options to purchase securities had been issued and were outstanding under the following equity compensation plans XO Communications, Inc Stock Option Plan, and the following stock options plans assumed in connection with the acquisition of Concentric Network Corporation Delta Internet Services, Inc 1996 Stock Option Plan, Concentric Network Corporation 1995 Stock Incentive Plan for Employees and Consultants, Concentric Network Corporation 1996 Stock Plan, Concentric Network Corporation 1997 Stock Plan, Concentric Network Corporation 1999 Nonstatutory Stock Option Plan, and certain grants of stock options to Concentric employees not pursuant to any plan Pursuant to our Plan of Reorganization, which became effective as of January 16, 2003, interests in each such plan, and rights to securities to be issued upon the exercise of options outstanding under each such plan, were terminated and cancelled, and holders of such interests and options under each such plan were not entitled to any distribution pursuant to the Plan of Reorganization The table below presents information with respect to the above referenced plans as of December 31, 2002

Equity Compensation Plan Information

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights(1)	Weighted-average exercise price of outstanding options, warrants and rights(1)	Number of securities remaining available for future issuance under equity compensation plans
Equity compensation plans approved by security holders	41,567,555	$6 78	43,894,303
Equity compensation plans not approved by security holders	0	N/A	0
Total	41,567,555	$6 78	43,894,303

(1) Excludes options to purchase 2,630,417 shares of our pre-petition class A common stock granted prior to our June 16, 2000 acquisition of Concentric Network Corporation pursuant to various stock option plans of Concentric, which options we assumed in connection with the Concentric acquisition and have a weighted average exercise price of $16 68 per share

Our 2002 Stock Incentive Plan Under Our Plan of Reorganization

In connection with the confirmation of our Plan of Reorganization by the Bankruptcy Court, the Bankruptcy Court approved the adoption of the XO Communications, Inc 2002 Stock Incentive Plan, or the 2002 Stock Incentive Plan, which became effective as of January 16, 2003, the date that we consummated our Plan of Reorganization Under the 2002 Stock Incentive Plan, we are authorized to issue, in the aggregate, stock awards with respect of up to 17,590,020 of shares of New Common Stock, in the form of options to purchase stock or restricted stock Of those shares, non-qualified options to purchase 11,492,900 shares of New Common Stock have been granted and are outstanding as of March 1, 2003 pursuant to the 2002 Stock Incentive Plan, each at a purchase price of $5 00 per share With respect to the underlying shares of these options, 25% are fully vested and the remainder vest over a period of three years

The primary purpose of the 2002 Stock Incentive Plan is to provide a means through which we may continue to attract, motivate and retain selected employees, officers and independent contractors who can materially contribute to our growth and success, and to encourage stock ownership in us through granting incentive stock options or nonqualified stock options, or both, to purchase our common stock or shares of restricted stock

The 2002 Stock Incentive Plan is administered by the Compensation Committee of our Board of Directors, and as such has the discretionary authority to determine all matters relating to awards of stock options and restricted stock, including the selection of eligible participants, the number of shares of common stock to be subject to each option or restricted stock award, the exercise price of each option, vesting, and all other terms and conditions of awards

Unless the Compensation Committee designates otherwise, all options expire on the earlier of (i) ten years after the date of grant, (ii) twelve months after termination of employment with XO due to death or complete and permanent disability, (iii) immediately upon termination of employment by us for Cause (as defined in the Stock Incentive Plan), or (iv) three months after termination of employment by the employee or by us for other than Cause

The Compensation Committee may award shares of restricted stock and may establish terms, conditions and restrictions applicable thereto Subject to the restrictions on restricted stock, award recipients generally will have all the rights and privileges of a stockholder, including the right to vote such restricted stock Restricted stock generally is subject to restrictions related to transferability and forfeiture until vested at the expiration of the restricted period

Upon a merger, consolidation, acquisition of property or stock, separation, reorganization or liquidation of us as a result of which our stockholders receive cash, stock or other property in exchange for or in connection with their shares of common stock, any award granted under the 2002 Stock Incentive Plan will terminate, and, in the case of options, the recipients shall have the right immediately prior to any such event to exercise their vested options In the event that our stockholders receive capital stock of another corporation in exchange for their shares of common stock in any transaction involving a merger, consolidation, acquisition of property or stock, separation or reorganization, unless otherwise determined by us, all awards granted under the 2002 Stock Incentive Plan shall be converted into awards with respect to shares of such exchange stock

Unless otherwise expressly determined by a resolution of our Board of Directors on the date of grant or such later date when the Board of Directors may ratify the award, (i) awards granted to non-affiliated directors will vest in full immediately upon the occurrence of a change in control, as defined in the 2002 Stock Incentive Plan, or (ii) awards granted to employees whose employment is terminated by us without Cause, and awards granted to certain officers whose employment is terminated by us without Cause or by the officer for Good Reason (as defined in the 2002 Stock Incentive Plan), will vest in full if such termination occurs within one year following such change in control In all other cases, in the event of a change in control, unless otherwise determined by the Board prior to the occurrence of such change in control, any unvested awards shall not become fully vested merely by the occurrence of such change in control Because the Stock Incentive Plan took effect in connection with the consummation of our Plan of Reorganization, the transactions contemplated thereby were not deemed a change of control for purposes of the Stock Incentive Plan

Item 13. Certain Relationships and Related Transactions

Carl C Icahn In February 2003, Dixon Properties, LLC, which is owned and controlled by Mr Icahn, acquired ownership of the building in which our headquarters is located in a transaction that was approved by the Bankruptcy Court in our Chapter 11 proceedings We currently are leasing approximately 170,000 square feet of space in that building In connection with the purchase of the building by Dixon Properties, it assumed the lease agreement under which we lease the space we occupy Pursuant to the lease agreement, we are obligated to pay Dixon Properties lease payments of approximately $20 4 million in the aggregate (excluding certain building-related expenses) through the expiration of the initial term of the lease, which runs through November 30, 2007

We have entered into a Tax Allocation Agreement, dated January 16, 2003, between XO Parent and Starfire Holding Corporation, a company controlled by Mr Icahn, which in turn indirectly controls Cardiff, in connection with the fact that it is contemplated that these entities will be filing consolidated federal income tax returns, and possibly combined returns for state tax purposes The Tax Allocation Agreement, which was approved by the Bankruptcy Court in connection with our Chapter 11 proceedings, establishes the methodology for the calculation and payment of income taxes in connection with the consolidation of us with Starfire for income tax purposes Generally, the Tax Allocation Agreement provides that Starfire will pay all consolidated federal income taxes on behalf of the consolidated group that includes us, and we will make payments to Starfire in an amount equal to the tax liability, if any, that we would have if we were to file as a consolidated group separate and apart from Starfire

Mr Icahn, through various entities that he owns and controls, has the right to require us to register, under the Securities Act of 1933, shares of New Common Stock held by such entities and to include shares of New Common Stock held by them in certain registration statements filed by us, pursuant to a Registration Rights Agreement approved by the Bankruptcy Court in connection with our Chapter 11 proceedings

Arnos Corp , which is owned and controlled by Mr Icahn, holds approximately 85% of the $500 million in loans outstanding under the New Credit Agreement Under the New Credit Agreement, no cash interest payments are required to be made by us until we achieve specified financial targets

We provide communications services to affiliates of Mr Icahn Billings through February 28, 2003 for such services were less than $50,000

Other Transactions and Relationships R Gerard Salemme owns an 80% interest in Communications Consultants, Inc , which employs Mr Salemme and from which we retain Mr Salemme for service as XO's Senior Vice President, Regulatory and Legislative Affairs See the "Summary Compensation Table" for information regarding payments to Communications Consultants

Pre-Petition Stockholders Prior to the Effective Date of our Plan of Reorganization, certain investment funds affiliated with Forstmann Little & Co had a significant equity interest in us and had designated certain individuals to serve as members of our board of directors Such investment funds and other entities affiliated with Forstmann Little & Co currently hold a significant equity interest in McLeodUSA Incorporated McLeod provides interconnection and facilities based telecommunications services to us, for which we paid McLeodUSA approximately $2 0 million in 2002 In 2002, we provided limited telecommunications services to McLeodUSA, for which we received approximately $373,000 in 2002

Item 14. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The term disclosure controls and procedures is defined in Rules 13a-14(c) and 15d-14(c) of the Securities Exchange Act of 1934 These rules refer to the controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files under the Exchange Act is recorded, processed, summarized and reported within required time periods Our principal executive officer and our principal financial officer have evaluated the effectiveness of our disclosure controls and procedures as of a date within 90 days before the filing of this quarterly report which we refer to as the Evaluation Date, and they have concluded that, as of the Evaluation Date, such controls and procedures were effective at ensuring that required information was disclosed on a timely basis in our reports filed under the Exchange Act

Changes in Internal Controls

We maintain a system of internal accounting controls that are designed to provide reasonable assurance that our books and records accurately reflect our transactions and that our established policies and procedures are followed For the quarter ended December 31, 2002, there were no significant changes to our internal controls or in other factors that could significantly affect our internal controls

PART IV

Item 15. Exhibits, Financial Statement Schedules and Reports on Form 8-K

(a) (1) and (2) Financial Statements and Schedule

(3) List of Exhibits — Refer to Exhibit Index, which is incorporated herein by reference

(b) Reports on Form 8-K

(1) Current Report on Form 8-K, filed on October 15, 2002, reporting under Item 5 that, on October 14, 2002, XO Parent announced that it has agreed with Telefonos de Mexico, S A de C V and certain investment partnerships affiliated with Forstmann Little & Co to mutually terminate the previously announced Investment Agreement among the parties and to settle any potential claims relating to the Investment Agreement or its termination

(2) Current Report on Form 8-K, filed on November 22, 2002, reporting under Item 3 that, on November 15, 2002, Judge Arthur J Gonzalez of the United States Bankruptcy Court for the Southern District of New York entered an order confirming the "Stand-Alone Plan" contemplated by the Plan of Reorganization of XO Parent

(3) Current Report on Form 8-K/A, filed on November 26, 2002, amending under Item 3 certain information included in the Current Report on Form 8-K, filed on November 22, 2002, discussed above

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities and Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized

XO Communications, Inc

Date March 21, 2003

By /s/ NATHANIEL A DAVIS
Nathaniel A Davis
President and Chief Operating Officer
(Principal Executive Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below on March 21, 2003 by the following persons on behalf of the Registrant and in the capacities indicated·

Name	Title
/s/ NATHANIEL A DAVIS Nathaniel A Davis	President and Chief Operating Officer (Principal Executive Officer)
/s/ WAYNE M REHBERGER Wayne M Rehberger	Senior Vice President, Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)
/s/ CARL C ICAHN Carl C Icahn	Chairman of the Board of Directors
/s/ ANDREW R COHEN Andrew R Cohen	Director
/s/ ADAM DELL Adam Dell	Director
/s/ VINCENT J INTRIERI Vincent J Intrieri	Director
/s/ KEITH MEISTER Keith Meister	Director

CERTIFICATIONS

I, Nathaniel A Davis, certify that

1 I have reviewed this annual report on Form 10-K of XO Communications, Inc ,

2 Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report,

3 Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report,

4 The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared,

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date,

5 The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function)

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weakness in internal controls, and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls, and

6 The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses

Date March 21, 2003

/s/ NATHANIEL A DAVIS

Nathaniel A Davis
President and Chief Operating Officer
(Principal Executive Officer)

CERTIFICATIONS

I, Wayne M Rehberger, certify that

1 I have reviewed this annual report on Form 10-K of XO Communications, Inc ,

2 Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report,

3 Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report,

4 The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared,

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"), and

c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date,

5 The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function)

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weakness in internal controls, and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls, and

6 The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses

Date March 21, 2003

/s/ WAYNE M REHBERGER

Wayne M Rehberger
Senior Vice President and
ChiefFinancial Officer
(Principal Financial Officer)